

optic cable, unbundled facilities obtained from ILECs, microwave (including 38 GHz milliwave) transmission facilities (primarily provided by BizTel) and other technologies. TCG also installs diverse building entry points where a customer's security needs require such redundancy. TCG then places necessary customer-dedicated or shared electronic equipment at a location near or in the customer's premises to terminate the link.

TCG serves its customers from one or more nodes or hubs strategically positioned throughout its networks. The node houses the transmission and switching equipment needed to interconnect customers with each other, the IXC's and other local exchange networks. Redundant electronics, with automatic switching to the backup equipment in the event of failure, protect against signal deterioration or outages. Continuous monitoring of system components focuses on proactively avoiding problems rather than just reacting upon failure.

TCG adds switched, dedicated, Internet and data services to its basic fiber optic transmission platform by installing sophisticated digital electronics at its network nodes and at customer locations. TCG's advanced ISDN-capable digital telephone switches are connected to multiple ILEC and long distance carrier switches to provide TCG's customers access to every telephone in the local market as well as across the country and around the world. Similarly, TCG provides ATM switched and LAN multiplexers at the customer's premises and in its nodes to provide high speed LAN interconnection and native ATM services.

TCG's strategy for adding customers is designed to maximize the speed and impact of its marketing efforts while maintaining attractive rates of return on capital invested to connect customers directly to its networks. To initially serve a new customer, for example, TCG may use various transitional links, such as reselling a portion of the ILEC's network and, where appropriate, using alternative transmission technologies such as microwave transmission, including 38 GHz milliwave. Once the new customer's communications volume and product needs are identified, TCG may build its own fiber optic connection between the customer's premises and its networks to accommodate (i) the customer's current and future telecommunications needs and (ii) TCG's efforts to maximize return on network investment.

In determining which new markets to enter, TCG carefully analyzes the potential customer base and competitive condition within the market. TCG is planning on building new facilities, entering into fiber leases, and other arrangements with cable television companies and other carriers, acquiring existing telecommunications providers and exploring new technologies that have potential to enhance network expansion (such as the use of microwave radio facilities). TCG also seeks to utilize relationships with the Cable Stockholders or other cable television operators which have an existing presence in the market and with which TCG may be able to develop a fiber optic network rapidly and efficiently. As a facilities-based carrier, TCG utilizes a variety of means to expand geographically, including rights-of-way, easements, poles, ducts and conduits that are available from cable television operators, incumbent local exchange carriers, railways, subways, electric, gas and water utilities and municipal, state and federal street and highway authorities. TCG plans to continue making selected acquisitions of existing local telecommunications networks in markets in which it has existing local telecommunications operations or which are geographically proximate to such markets, as well as in markets that are otherwise attractive to TCG. TCG's use of BizTel as its primary and preferred provider of 38 GHz services offers TCG the opportunity to market telecommunications facilities to customers in geographical areas where TCG has not yet constructed, and may not find it economical to construct, fiber optic facilities.

Competition

TCG faces substantial and increasing competition in each of the metropolitan areas it serves or plans to serve from entities that offer services similar to those offered by TCG, including ILECs such as Ameritech, Bell Atlantic, BellSouth, SBC Communications, U S WEST and GTE. TCG believes that ILECs generally benefit from their long-standing relations with customers, substantial technical and financial resources, established ubiquitous networks and federal and state regulations that could provide them with increased pricing flexibility as competition increases. In addition, in most of the metropolitan areas in which TCG currently operates, at least one, and sometimes several, other CLECs offer substantially similar services at substantially similar prices to those of TCG. Other CLECs, ILECs entering new geographic markets, cable television companies, electric

utilities, long distance carriers, microwave carriers, wireless telephone system operators and private networks built by large end users may offer services similar to those offered by TCG. In addition, the current trend of actual and proposed business combinations and alliances in the telecommunications industry, which include mergers between ILECs, between IXC and international carriers and between IXCs and CLECs, may create significant new competitors for TCG.

The 1996 Act is intended to increase competition in the local telecommunications business. The 1996 Act requires all local exchange providers, including TCG and new entrants, to interconnect with other carriers, and to offer their services for resale and requires ILECs to offer their substantial network facilities on a discounted wholesale basis and on an unbundled basis. These requirements may facilitate entry by new competitors without substantial capital risk or investment. However, there can be no assurance that any rates or facilities offered by ILECs to TCG or other CLECs will be economically attractive or technically viable.

TCG believes that the 1996 Act will provide it with increased business opportunities and potentially better margins by opening all local markets in urban areas to competition and by requiring ILECs to provide improved direct interconnection at lower cost. However, under the 1996 Act, the FCC and some state regulatory authorities may provide ILECs with increased flexibility to reprice their service as competition develops and as ILECs allow competitors to interconnect to their networks. In addition, some new entrants in the local market may price certain services to a particular customer or for a particular route below the prices charged by TCG for services to that customer or for that route, just as TCG may itself underprice those new entrants. If ILECs and other competitors lower their rates and can sustain significantly lower prices over time, this may adversely affect revenues and margins of TCG. If regulatory decisions permit the ILECs to charge CLECs substantial fees for interconnection to the ILECs' networks or afford ILECs other regulatory relief, such decisions could also have a material adverse effect on TCG. However, TCG believes that the negative effects of the 1996 Act may be more than offset by (i) increased revenues available as a result of being able to address the entire urban local exchange market, (ii) mutual reciprocal compensation with the ILEC that results in TCG terminating its local exchange traffic on the ILEC's network at little or no net cost to TCG, (iii) obtaining access to off-network customers through more reasonably priced expanded interconnection with ILEC networks and (iv) a shift by IXCs to purchase access services from CLECs instead of ILECs. There can be no assurance, however, that these anticipated results will offset completely the effects of increased competition as a result of the 1996 Act.

Currently, TCG's services are predominantly local and regional, although TCG has begun to offer long distance services on a limited basis in order to provide a full range of telecommunications services to those customers who prefer to obtain most or all of their telecommunications services from one provider. However, TCG has examined from time to time, and will continue to examine, opportunities to expand its provisioning of other related telecommunications services. The merger with ACC represents an expansion of TCG's long distance services, including international long distance, and provision of local services in foreign countries. To the extent that TCG expands its provisioning of telecommunications or Internet services, it could incur certain additional risks in connection with such expansion, including technological compatibility risks, legal and regulatory risks and possible adverse reaction by some of its current customers.

All of the Cable Stockholders are in the telecommunications business and may, now or in the future, provide services which are the same or similar to those provided by TCG. In addition, affiliates of TCI, Cox and Comcast, which collectively have designated a majority of the directors of TCG, together with an affiliate of Sprint, have formed Sprint PCS, a partnership created to provide certain wireless telecommunications services. Also, affiliates of TCI, Cox and Comcast are principal owners of At Home, a provider of Internet related services over the @Home™ Network. No assurance can be given that the Cable Stockholders will not compete with TCG in certain markets or in the provision of certain telecommunications services. Although directors of TCG who are also directors, officers or employees of the Cable Stockholders or any of their respective affiliates have certain fiduciary obligations to TCG under Delaware law, such directors and the Cable Stockholders, as the controlling stockholders of TCG, are in positions that may create conflicts of interest with respect to certain business opportunities available to and certain transactions involving TCG. The Cable Stockholders have not adopted any

special voting procedures to deal with such conflicts of interest, and there can be no assurance that any such conflict will be resolved in favor of TCG. In this regard, TCG's Amended and Restated Certificate of Incorporation provides that TCG may not provide certain (i) wireless communications services (other than products and services delivered via point-to-point microwave and milliwave transmissions) or (ii) telecommunications services to residences until, in each case, the earlier of June 26, 2001, or the date on which the holders of TCG Class B Common Stock no longer represent at least 50% of the voting power of the outstanding TCG Common Stock, without the affirmative vote of the holders of a majority of the TCG Class B Common Stock, subject to certain exceptions.

Employees

As of December 31, 1997, TCG employed 3,059 employees, none of whom was represented by a union or covered by a collective bargaining agreement. TCG believes that its relations with its employees are good. In connection with the construction and maintenance of its digital networks and the conduct of its other business operations, TCG uses third party contractors, some of whose employees may be represented by unions or collective bargaining agreements. TCG believes that its success will depend in part on its ability to attract and retain highly qualified employees.

Properties

TCG leases network hub sites and other facility locations and sales and administrative offices in each of the cities in which it operates networks. During the years ended December 31, 1996 and 1997, rental expense for operating leases totaled \$18.0 million and \$31.4 million, respectively. On a pro forma basis, rental expense for operating leases totaled \$20.4 million for the year ended December 31, 1996. TCG has no significant real estate holdings. Management believes that its properties, taken as a whole, are in good operating condition and are suitable and adequate for TCG's business operations. TCG currently leases approximately 200,000 square feet of space at The Teleport complex in Staten Island, New York, where it maintains its headquarters, approximately 190,000 square feet in Dayton, New Jersey, where its principal executive offices are located, and approximately 70,000 square feet in Englewood, Colorado where its National Customer Care Center is located.

Legal Proceedings

In April 1997, a complaint was filed seeking damages in an unspecified amount against TCG in the Circuit Court of Cook County, Illinois by two former customers of TCG and an alleged class purporting to consist of investors in one of the customers, alleging fraud and breach of contract. The initial complaint was dismissed in September 1997 and an amended complaint was refiled by the plaintiffs in October 1997. TCG believes that the allegations are without merit and that it possesses meritorious counterclaims for damages arising from breach of contract. TCG additionally believes that any costs arising from this lawsuit will not have a material adverse effect on its financial condition, results of operations or cash flows.

On December 16, 1997, prior to public announcement of the AT&T Merger, an action was filed by one TCG public stockholder in the Delaware Court of Chancery against TCG, TCG's directors and the Cable Stockholders. The plaintiff's complaint alleges that, based on public reports, TCG's directors, management and controlling stockholders were negotiating the sale of TCG to AT&T on a preferential basis. This sale on a preferential basis, the complaint alleges, would offer little or no premium over the current market price of TCG Class A Common Stock and is therefore unfair and inadequate to TCG's public stockholders. The plaintiff seeks to enjoin the merger of TCG and AT&T or, alternatively, to rescind the transaction and/or recover damages in the event that the transaction is consummated. The complaint seeks to have the action certified for class action status and to appoint the plaintiff as the class representative.

On January 12, 1998, an action was filed by two TCG public stockholders in the Delaware Court of Chancery against TCG, certain TCG directors and officers, the Cable Stockholders and AT&T. The complaint alleges that the exchange ratio in the AT&T Merger represents an inadequate premium for stockholders of TCG Class A Common Stock. The complaint further alleges that the actions of the TCG directors, officers and Cable

Stockholders in connection with the AT&T Merger constitute a breach of various fiduciary duties owed to the stockholders TCG Class A Common Stock. The plaintiffs seek to enjoin the merger of TCG and AT&T or, alternatively, to rescind the transaction and/or recover damages in the event that the transaction is consummated. The complaint seeks to have the action certified for class action status and to appoint the plaintiffs as the class representatives.

On January 28, 1998, an action was filed by a TCG public stockholder in the Delaware Court of Chancery against TCG, certain TCG directors and officers, and the Cable Stockholders. The complaint alleges that the exchange ratio in the AT&T Merger represents an inadequate premium for stockholders of TCG Class A Common Stock. The complaint further alleges that the actions of the TCG directors, officers and Cable Stockholders in connection with the AT&T Merger constitute a breach of various duties owed to the stockholders of TCG Class A Common Stock. The plaintiffs seek to enjoin the merger of TCG and AT&T or, alternatively, to rescind the transaction and/or recover damages and fees in the event that the transaction is consummated. The complaint seeks to have the action certified for class action status and to appoint the plaintiff as the class representative.

Plaintiffs' counsel in the above three putative stockholder class action proceedings have agreed (i) to defer the obligation of the defendants to answer the actions and (ii) to consolidate the actions by filing an amended consolidated complaint. As of the end of February 1998, the amended consolidated complaint has not been filed. TCG believes that these proceedings, individually and in the aggregate, are without merit and that any associated costs will not have a material adverse effect on TCG's financial condition, results of operations or cash flows.

TCG is a party to various claims and legal proceedings arising in the ordinary course of business. TCG does not believe that such claims or proceedings, individually or in the aggregate, will have a material adverse effect on TCG's financial condition or results of operations.

MANAGEMENT OF TCG

Directors

John R. Alchin, 49, has been a director since November 1997. Mr. Alchin is the Senior Vice President and Treasurer of Comcast Corporation. In this capacity, he manages Comcast's capital formation activities, including equity and debt placements in domestic and overseas markets. He also oversees treasury management functions. Prior to joining Comcast in January 1990, Mr. Alchin worked with Toronto Dominion Bank, most recently as Managing Director, responsible for the Bank's Merchant Banking Group. He was active in founding the Bank's U.S. Communications Finance Group and worked closely with the cable television industry.

Robert Annunziata, age 49, has been Chairman of the Board since 1990 and a director since 1984. See "—Executive Officers" for a description of Mr. Annunziata's business experience.

John R. Dillon, age 56, has been a director since December 1991. Mr. Dillon was Senior Vice President and Chief Financial Officer of Cox Enterprises, Inc. ("CEI") since 1990 and retired on December 31, 1996. He continues to serve as a consultant to CEI and joined Cravey, Green & Wahlen, a private equity firm, as Managing Director in February 1997. He is also a director of Cox Communications, Inc. ("CCI").

Gerald W. Gaines, age 41, has been a director since November 1994. Mr. Gaines has been Senior Vice President of Telephony Services for TCI since 1994, and represents TCI in its joint venture with Sprint, Cox and Comcast. Prior to that, he had been founder and President of GCG Inc., a management services firm serving the telecommunications industry since 1991. From 1986 to 1991, Mr. Gaines held various executive positions with U S WEST, most recently serving as President and Chief Executive Officer for U S WEST Service Link, a service bureau providing operator and computerized validation services. He also serves on the Board of Directors of the Five Points Media Center.

Jimmy W. Hayes, age 45, has been a director since August 1996. He joined CEI in 1980 as Accounting Manager. He was promoted in May 1981 to Assistant Controller in December of that year. He was named a corporate officer in December 1982, and promoted to Vice President of Finance of CCI in August 1989. He was promoted to Senior Vice President of Finance and Chief Financial Officer of CCI in January 1992. Prior to joining CEI, Mr. Hayes was an Audit Manager with Price Waterhouse & Company in Atlanta.

James Bruce Llewellyn, age 70, has been a director since June 1996. He has been the Chairman of the Board and principal stockholder of the Philadelphia Coca-Cola Bottling Company since 1985. He was the principal stockholder and Chairman of the ABC television network affiliate in Buffalo, New York. He served as the Chairman of Garden State Cablevision, Inc. and has been a partner in the Washington, D.C. law firm of Dickstein, Shapiro & Morin. He serves on the Board of Directors of Coors Brewing Company and Essence Communications, Inc.

James O. Robbins, age 55, has been a director since April 1996. Mr. Robbins has served as President and Chief Executive Officer of CCI since May 1994. Prior to that, Mr. Robbins had been President of CCI since 1985. Mr. Robbins has been a director of CCI since May 1994. Mr. Robbins is a member of the Executive Committee of the National Cable Television Association. Mr. Robbins also serves as a director to TeleWest Communications plc and NCR Corporation and is a representative on the Partnership Board of Sprint Spectrum Holding Company, L.P., the general partner of Sprint Spectrum, L.P.

C.B. Rogers, Jr., age 68, has been a director since June 1996. He has been Chairman of Equifax Inc. since 1992. He was Chief Executive Officer of Equifax Inc. from 1989 to December 1995. He is Chairman of the Board of Directors and the Executive Committee of Equifax Inc. Mr. Rogers is a former Senior Vice President of International Business Machines Corporation where he was employed for 33 years before joining Equifax Inc. in 1987. He also serves on the Board of Directors of Sears, Roebuck & Co., Briggs & Stratton Corporation, Oxford Industries, Inc. and Morgan Stanley, Dean Witter, Discover & Co.

Larry E. Romrell, age 58, has been a director since April 1996. Prior to that time, he was director of TCG from November 1992 to October 1995. Mr. Romrell has been Executive Vice President of TCI since January 1994 and President of TCI Technology Ventures since September 1994. Prior to that, he had been Senior Vice President of TCIC from 1991 to October 1994. Mr. Romrell previously held various executive positions with WestMarc Communications, Inc., a subsidiary of TCI.

Lawrence S. Smith, age 50, has been a director since May 1993. Mr. Smith has been Executive Vice President of Comcast since January 1996. Prior to that, he had been Senior Vice President of Accounting and Administration for Comcast for more than five years. He joined Comcast in 1988 with responsibility for financial administration and corporate accounting. He previously served as Chief Financial Officer of Advanta Corp., a financial services firm, and was a tax partner in the Philadelphia office of Arthur Andersen & Co., with which he was affiliated for 18 years. Mr. Smith serves on several corporate boards including Comcast U.K. Cable Partners Limited, Sprint Spectrum Holding Company, L.P., E! Entertainment Television, Inc. and QVC, Inc.

Bernard W. Schotters, age 53, has been a director since August 1996. He was appointed Senior Vice President—Finance and Treasurer of TCIC in October 1991 and Executive Vice President—Finance and Treasurer as of January 1, 1998. Previously he served as TCI's Vice President—Finance. Mr. Schotters is currently a member of the National Association of Securities Dealers 1994 Issuer Affairs Committee and functions in a consultative capacity to the National Cable Television Association. Prior to joining TCI in 1983, Mr. Schotters was Vice President of Wells Fargo Bank where he was involved in commercial lending activities.

David M. Woodrow, age 52, has been a director since November 1992. Mr. Woodrow has been Senior Vice President of Broadband Services for CCI since 1994. Prior to that, he had been Senior Vice President of Operations for CCI since 1989. Mr. Woodrow is a director of the Cellular Telephone Industry Association and At Home.

TCG's Amended and Restated Bylaws and the Amended Stockholders' Agreement provide that TCG's Board of Directors will consist of 13 directors. Pursuant to the Amended Stockholders' Agreement, TCI has the right to designate four directors. See "Certain Relationships and Related Transactions of TCG". One of TCI's former designees, Brendan R. Clouston, has resigned from TCG's Board of Directors and TCI is in the process of designating his successor.

Executive Officers

Robert Annunziata, age 49, has been Chairman of the Board since 1990 and President and Chief Executive Officer since 1985. Prior to that, Mr. Annunziata had been Senior Vice President and Chief Operating Officer since 1983. He has been a director of TCG since 1984. He has 30 years of experience in the telecommunications industry, including 17 years in a variety of operations and marketing positions with AT&T. He has served as President of the World Teleport Association ("WTA") from 1987 to 1991 and remains a WTA director. He currently serves on the Board of Directors of the YMCA of Greater New York. Formerly, he served on the New York State Governor's Advisory Board on Telecommunications and the New York City Mayor's Alliance for International Business.

Robert C. Atkinson, age 46, has been Senior Vice President—Legal, Regulatory and External Affairs since February 1990. Prior to that he had been Vice President—Regulatory and External Affairs since 1985. Prior to joining TCG, Mr. Atkinson held various business development, regulatory and government relations positions at ITT World Communications Inc., Satellite Business Systems, GTE Sprint and RCA Global Communications, Inc. He was a founder and first President of the Association for Local Telecommunications Services, the CLEC trade association.

Marsha Gewirtzman, age 47, has been Senior Vice President—People Services since October 1997, having previously served as Vice President—People Services. She joined TCG as Vice President—Sales Operations in February 1996. Prior to joining TCG she held various senior management and executive positions over a period of 8 years with Tiffany & Co. She also spent 15 years with AT&T in a variety of marketing, sales, management and planning positions. Ms. Gewirtzman serves on the Board of Directors of the Business School of the College of William & Mary.

Joel D. Gross, age 43, has been Senior Vice President—Corporate Development since February 1993. Prior to that, he had been Vice President and Senior Securities Analyst—Telecommunications for Donaldson, Lufkin & Jenrette Securities Corporation since 1987 and Vice President and Senior Securities Analyst—Telecommunications for Dean Witter since 1985. Prior to that, Mr. Gross held a variety of management positions at AT&T spanning 8 years.

Alf T. Hansen, age 55, was appointed Senior Vice President—Emerging Markets in October 1997. Prior to that, he had been Senior Vice President—National Operations since January 1993, and prior to that, he had been Vice President—National Operations since March 1990 and Vice President—Engineering and Operations for TCG's New York/New Jersey metropolitan area since joining TCG in 1989. Prior to joining TCG, Mr. Hansen worked for AT&T where he had assignments in Operations, Engineering, Sales and Public Relations. From 1983 to 1988, he managed AT&T's Long Distance Switched Network in New England and New York. In 1988, he was AT&T's Project Manager responsible for the implementation of the Tariff 12 Networks.

J. Curt Hockemeier, age 49, was appointed Senior Vice President—Network Operations in October 1997. Prior to that, he had been Senior Vice President—Network Services. Mr. Hockemeier joined TCG in January 1993. Prior to that, he had been Vice President and General Manager of Cox Cable Oklahoma City since 1983. He joined Cox Cable in Atlanta in 1980 as Director of Corporate Advertising. Mr. Hockemeier was employed by General Electric Co. for 9 years in a variety of marketing communications assignments prior to joining Cox Cable.

Marvin L. Lindsey, age 57, was appointed Senior Vice President—MIS in October 1997. Prior to that, he had been Senior Vice President—Engineering and MIS since December 1993. Prior to joining TCG, Mr. Lindsay was an independent telecommunications consultant for various large international telecommunications companies since July 1991. Mr. Lindsey was Service Vice President of AT&T's Business Communications organization from April 1987 to July 1991 and worked more than 28 years in various technical and operations positions with AT&T.

Stuart A. Mencher, age 58, was appointed Senior Vice President—Sales and Marketing in October 1997. Prior to that, he had been Senior Vice President—National Sales and Marketing since February 1994. Prior to that, he had been Senior Vice President—New York Operations since February 1993 and Vice President and General Manager of TCNY since June 1992. From June 1991 until May 1992, Mr. Mencher worked as an independent consultant in the international telecommunications industry. From March 1987 to January 1990, Mr. Mencher served as a Senior Vice President of MCI Telecommunications Corp., primarily responsible for sales and marketing, and, from February 1990 to May 1991, he served as Senior Vice President of the U.S. Distribution Division of Motorola/Codex Corp. Prior to joining MCI, Mr. Mencher served in a variety of senior sales and marketing executive positions with AT&T Information Systems following almost sixteen years of sales, marketing and management experience with IBM's Data Processing Division.

John A. Scarpati, age 46, has been Senior Vice President and Chief Financial Officer since March 1990. He has been the senior financial officer of TCG since its inception. Prior to joining TCG, he was Vice President and manager for Merrill Lynch & Co., primarily responsible for performing due diligence reviews for companies being considered for acquisition by Merrill Lynch & Co. or its subsidiaries. His assignments included Merrill Lynch & Co.'s investment in TCG and Merrill Lynch & Co.'s entry into the real estate brokerage and banking industries. Mr. Scarpati is a Certified Public Accountant and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Kenneth A. Shulman, age 44, has been Senior Vice President—Technology since August 1995. Prior to that, he had been Vice President of Applied Research and Development since February 1994, Vice President of Technology and Network Planning since October 1991, Director, Engineering and Technology since June 1990 and Director, Research and Technology since November 1989. Prior to joining TCG in 1987, Mr. Shulman held positions as Director—Systems Engineering at MCI International, as District Manager—Integrated Network Evolution Planning at Bell Communications Research and as Supervisor—Switching Systems Engineering at Bell Laboratories. Mr. Shulman serves on the Board of Directors of WarpSpeed Communications, Inc. and the Alliance for Telecommunications Industry Solutions (ATIS) and is a member of the FCC's North American Numbering Council.

Maria Terranova-Evans, age 42, has been Vice President and Controller since February 1992. Ms. Evans has held various managerial and executive financial positions since joining TCG in September 1984 including accounting Manager, Controller, and accounting Director/Controller. She is also a Certified Public Accountant.

Wayne G. Fox, age 42, has been Vice President and Treasurer since June 1995. Prior to that, he had been Vice President—Corporate Ventures since January 1993 and Managing Director of Corporate Ventures since November 1992. Mr. Fox was a director of TCG from April 1991 to November 1992. Prior to joining TCG, he had been a Vice President and Director in the Mergers & Acquisitions Group for Merrill Lynch Capital Markets.

John W. Thomson, age 49, has been Vice President and Secretary since June 1984. Mr. Thomson also served as General Counsel of TCG from June 1984 until February 1996, and as Senior Counsel for Merrill Lynch & Co., Inc. from 1981 to 1988.

W. Terrell Wingfield, Jr., age 45, has been Vice President and General Counsel since March 1996. From March 1994 to February 1996, Mr. Wingfield served as Regional Vice President—Central Region Operations, and from January 1993 to March 1994 as Counsel—Affiliate Services. Prior to that, Mr. Wingfield had been Senior Counsel of Cox Enterprises, Inc. since 1989.

Committee Meetings

The Board of Directors has four Committees: the Audit Committee, the Compensation and Benefits Committee (the "Compensation Committee"), the Executive Committee and the Finance Committee. The Audit Committee's current members are Messrs. Schotters (Chairman), Hayes and Smith. The Audit Committee held three meetings during 1997. The Audit Committee recommends to the full Board of Directors the selection of independent auditors, reviews the activities and reports of the independent auditors and monitors the independent audit function and controls of TCG.

The Compensation Committee's current members are Messrs. Dillon (Chairman), Gaines, Llewellyn and Smith. The Compensation Committee held five meetings during 1997. The Compensation Committee determines the compensation packages of the five most highly paid executives of TCG, reviews other compensation matters periodically and authorizes the issuance of stock options and other long-term incentive grants pursuant to approved plans.

The Executive Committee's current members are Messrs. Annunziata (Chairman), Smith, Gaines, Robbins and Rogers. The Executive Committee held one meeting during 1997. The Executive Committee reviews and approves, within specific dollar limits, merger and acquisition proposals, capital spending above approved budget amounts and issuance of debt. The Executive Committee also approves TCG's expansion into new markets, reviews the annual budget submitted by TCG's management and submits a budget proposal to the full Board of Directors for ratification.

The Finance Committee's current members are Messrs. Gaines (Chairman), Alchin and Hayes. The Finance Committee held three meetings during 1997. The Finance Committee reviews the TCG financing plans and investment policy.

Compensation of Directors

No director receives any retainer or compensation for serving as a director except for TCG's two independent directors, currently Messrs. Llewellyn and Rogers ("Independent Directors"). Each Independent Director is entitled to a fee of \$6,250 for each calendar quarter he serves as a director and the reimbursement of all reasonable expenses related to attendance at meetings of the Board of Directors or any Committee thereof. Fifty percent of the quarterly fee is payable in cash with the remaining fifty percent payable in shares of TCG Class A Common Stock pursuant to the terms of the Teleport Communications Group Inc. Directors Stock Plan. In addition, each Independent Director is paid \$1,000 in cash for each meeting of the Board of Directors which the Independent Director attends in person and \$250 in cash for each calendar quarter during which the Independent Director serves as the Chairman of a Committee of the Board of Directors.

Compensation of Executive Officers

The following table sets forth the compensation of TCG's President and Chief Executive Officer and each of the four remaining most highly compensated executive officers (the "Named Executive Officers") for services rendered for TCG in the fiscal years ended December 31, 1995, December 31, 1996 and December 31, 1997.

Summary Compensation Table

| Name and Position | Fiscal Year | Annual Compensation | | Restricted Stock Awards | Long-Term Compensation # Securities Underlying Options | All Other Compensation |
|---|-------------|---------------------|--------------|-------------------------|---|------------------------|
| | | Salary | Bonus | | | |
| Robert Annunziata President, Chief Executive Officer and Chief Operating Officer | 1997 | \$370,200 | \$325,000(1) | \$375,227(1) | 100,050 | \$45,265 |
| | 1996 | 300,000 | 520,000 | — | 191,295 | 28,917 |
| | 1995 | 240,000 | 185,580 | — | — | 27,879 |
| John A. Scarpati Senior Vice President and Chief Financial Officer | 1997 | 225,583 | 150,000 | — | 55,050 | 32,535 |
| | 1996 | 175,660 | 273,000 | — | 97,955 | 21,653 |
| | 1995 | 159,931 | 115,020 | — | — | 20,088 |
| Joel D. Gross Senior Vice President | 1997 | 192,667 | 110,000 | — | 24,550 | 30,188 |
| | 1996 | 165,413 | 153,000 | — | 39,555 | 10,791 |
| | 1995 | 147,047 | 95,000 | — | — | 9,141 |
| Alf T. Hansen Senior Vice President | 1997 | 188,250 | 140,000 | — | 21,050 | 19,430 |
| | 1996 | 167,383 | 91,000 | — | 47,120 | 14,741 |
| | 1995 | 148,462 | 95,250 | — | — | 13,168 |
| Stuart A. Mencher Senior Vice President | 1997 | 188,083 | 121,000 | — | 28,050 | 15,936 |
| | 1996 | 165,367 | 133,000 | — | 44,598 | 12,059 |
| | 1995 | 146,284 | 96,200 | — | — | 10,337 |

- (1) Represents 6,723 shares of restricted stock awarded to Mr. Annunziata on February 1, 1998 as part of his annual bonus for 1997. The aggregate value of these awards shown above is based on a price of \$55.8125 per share, the closing price of Class A Common Stock on January 30, 1998, the last business day preceding the date of the award. These shares of restricted stock vest January 1, 2000, provided he remains employed as of that date.
- (2) Includes amounts contributed by TCG to the Retirement Savings Plan, the Make-Up Plan and the Basic and Supplemental Group Life Insurance Plans for each Named Executive Officer as stated below:

| | | Savings Plan | Make-up Plan | Group Life Plan |
|----------------------|------|--------------|--------------|-----------------|
| Mr. Annunziata | 1997 | \$7,100 | \$36,536 | \$1,629 |
| | 1996 | 6,750 | 20,545 | 1,622 |
| | 1995 | 6,750 | 19,507 | 1,622 |
| Mr. Scarpati | 1997 | 8,500 | 23,176 | 859 |
| | 1996 | 8,063 | 12,731 | 859 |
| | 1995 | 8,063 | 11,521 | 504 |
| Mr. Gross | 1997 | 4,300 | 25,459 | 429 |
| | 1996 | 4,125 | 6,360 | 306 |
| | 1995 | 4,125 | 4,710 | 306 |
| Mr. Hansen | 1997 | 5,700 | 11,819 | 1,911 |
| | 1996 | 5,438 | 8,249 | 1,054 |
| | 1995 | 5,438 | 6,676 | 1,054 |
| Mr. Mencher | 1997 | 4,300 | 9,732 | 1,904 |
| | 1996 | 4,125 | 6,622 | 1,312 |
| | 1995 | 4,125 | 4,900 | 1,312 |

The table below sets forth information concerning stock option grants made in the fiscal year ending December 31, 1997 to the Named Executive Officers:

Option Grants in 1997 Fiscal Year

| Name | Individual Grants | | | | Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term | |
|-------------------------|--|---|--------------------------|-----------------|--|-----------|
| | # Securities Underlying Options Granted(1) | % of Total Options Granted to Employees | Exercise Price Per Share | Expiration Date | 5%(2) | 10%(2) |
| | | | | | | |
| Robert Annunziata | 50 | .03% | \$49.00 | 10/31/07 | \$ 1,541 | \$ 3,905 |
| | 100,000 | 6.48 | 46.98 | 11/19/07 | 2,954,547 | 7,487,402 |
| John A. Scarpati | 50 | .03 | 49.00 | 10/31/07 | 1,541 | 3,905 |
| | 55,000 | 3.56 | 46.98 | 11/19/07 | 1,625,001 | 4,118,071 |
| Joel D. Gross | 50 | .03 | 49.00 | 10/31/07 | 1,541 | 3,905 |
| | 24,500 | 1.59 | 46.98 | 11/19/07 | 723,864 | 1,834,414 |
| Alf T. Hansen | 50 | .03 | 49.00 | 10/31/07 | 1,541 | 3,905 |
| | 21,000 | 1.36 | 46.98 | 11/19/07 | 620,455 | 1,572,354 |
| Stuart A. Mencher | 50 | .03 | 49.00 | 10/31/07 | 1,541 | 3,905 |
| | 28,000 | 1.81 | 46.98 | 11/19/07 | 827,273 | 2,096,473 |

- (1) All options are Incentive Stock Options under section 422 of the Internal Revenue Code to the extent allowable and expire 10 years from date of grant. The 50 options which expire on October 31, 2007 vest 100% on October 31, 1999. The remaining options, which expire on November 19, 2007, vest 25% per year beginning January 1, 1998.
- (2) The potential realizable value portion of the foregoing table illustrates the gain that might be realized upon the exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation of TCG's Common Stock over the term of the option. Actual gains, if any, on the stock option exercises are dependent on the future performance of the Common Stock, overall market conditions, as well as the options holders' continued employment through the vesting period. The amounts reflected in this table may not necessarily be achieved.

**Aggregated Option/SAR Exercises in 1997 Fiscal Year
and 1997 Fiscal Year-end Option/SAR Value**

| <u>Name</u> | <u>Shares Acquired On Exercise</u> | <u>Value Realized</u> | <u>Number of Unexercised Options at Fiscal Year End</u> | | <u>Value of Unexercised In-The-Money Options at Fiscal Year End</u> | |
|-------------------------|--|---------------------------|---|---------|---|--------------|
| | | | <u>Exercisable/ Unexercisable</u> | | <u>Exercisable/ Unexercisable</u> | |
| Robert Annunziata | — | — | 223,309 | 347,172 | \$10,714,366 | \$10,031,773 |
| John A. Scarpati | — | — | 79,753 | 172,943 | 3,826,549 | 4,796,835 |
| Alf T. Hansen | — | — | 54,232 | 81,728 | 2,602,051 | 2,525,743 |
| Joel D. Gross | — | — | 39,877 | 74,074 | 1,913,298 | 2,095,539 |
| Stuart A. Mencher | — | — | 41,472 | 83,016 | 1,989,827 | 2,332,754 |

**Employment Contracts, Severance Agreements
and Change of Control Agreements**

Robert Annunziata has entered into an employment agreement with TCG which expires December 31, 2000. The agreement provides that Mr. Annunziata will be employed as Chairman of the Board of Directors, President and Chief Executive Officer of TCG. The agreement establishes a base salary to be paid to Mr. Annunziata each year which is subject to annual adjustment by the Compensation Committee and increased at least 5% per year. In addition, he is entitled to annual bonuses in the range of 0% to 90% of his base salary, subject to the attainment of certain performance objectives. The amount of the bonus is determined at the discretion of the Compensation Committee. If the annual goals set by the Compensation Committee are achieved, the target bonus is 60% of Mr. Annunziata's base salary. If TCG terminates Mr. Annunziata's employment without Cause or if Mr. Annunziata terminates his employment for Good Reason or within six months of a Change in Control, then Mr. Annunziata is entitled to receive: (i) the continued payment of his base salary, plus an annual bonus equal to no less than 60% of his base salary, for a period of 24 months, (ii) immediate and full vesting of all forms of deferred, contingent long-term compensation, (iii) the options vested under the terms of his stock option award as of the termination date, and (iv) the continuance of all benefits and perquisites for 24 months, or if earlier, until the date Mr. Annunziata commences other employment providing comparable benefits. With certain exceptions, a Change in Control is a direct or indirect transfer of 50% or more of the beneficial ownership of the capital stock of TCG in one or more transactions to any entity other than any of TCI, CEI, Comcast or Continental and their respective controlled subsidiaries. Mr. Annunziata may be terminated for Cause if he materially breaches his employment agreement by acting or willfully failing to act with results that are materially and demonstrably injurious to the business of TCG. Mr. Annunziata may terminate his employment for Good Reason if (i) without his prior written consent, there is a material reduction in his functions, duties and responsibilities as Chairman of the Board of Directors, President and Chief Executive Officer, (ii) without his consent, his office is relocated outside the Northeast Corridor or (iii) there is a material breach of his employment agreement by TCG. Mr. Annunziata has agreed not to compete with TCG for the term of his employment with TCG and for an additional period of two years thereafter in the local telecommunications business.

Each of the other Named Executive Officers also has entered into an employment agreement with TCG. The terms of each of these four agreements are substantially identical. The term of the employment agreement of Mr. Scarpati expires on December 31, 2000. The term of the employment agreement of Mr. Atkinson expires on December 31, 1998. Mr. Gross' employment agreement expires June 30, 1998. Mr. Hansen's employment agreement expires December 31, 1999 and Mr. Mencher's agreement expires on December 31, 1999. Each agreement specifies the base salary to be received by the executive, and provides for annual adjustment of the base salary by the CEO, with the approval of the Compensation Committee, provided that the annual increase must be at least 5%. In addition, each executive is entitled to annual bonuses in the range of 0% to 60% of his base salary, subject to the attainment of certain performance objectives established by the CEO with the approval of the Compensation Committee. The amount of the bonus is determined at the discretion of the Compensation Committee. If the annual goals set by the Compensation Committee are achieved, the target bonus is 40% of the executive's base salary. If TCG terminates the executive's employment without Cause or if, following a Change

in Control, the executive gives TCG at least six months notice that he is terminating employment, then the executive is entitled to receive (i) annual payments equal to his base salary, plus an annual bonus equal to no less than 30% of his base salary, plus benefits, through the end of the term of the agreement, but for no less than six months and (ii) continued employment service credit, for the remaining term of the employment agreement, for purposes of vesting under all forms of deferred compensation and long-term incentive plans. The executive may be terminated for Cause if he materially breaches his employment agreement by acting or willfully failing to act with results that are materially and demonstrably injurious to the business of TCG. With certain exceptions, a Change in Control is deemed to occur if there is a direct or indirect transfer of 50% or more of the legal or beneficial ownership of stock of TCG, in one or more transactions, to any entity other than to any of TCI, CEI, Comcast or Continental or any of their controlled subsidiaries. Each agreement provides that during the six-month period following his termination for any reason, the executive shall have the right to require TCG to purchase from him any stock of TCG that he owns, at the then appraised value or, if he terminates on or after July 1 of any year, at the appraised value as of the following December 31. Each executive has agreed not to compete with TCG during the term of his employment or while he is receiving the severance benefits described above.

Employment Agreements with AT&T

It is currently anticipated that Mr. Annunziata will continue as President and Chief Executive Officer of TCG, and that the other executive officers, including Messrs. Scarpati, Hansen, Mencher, Atkinson and Gross, will continue in their respective capacities with TCG after the AT&T Merger. Each of Messrs. Annunziata, Scarpati, Hansen, Mencher, Atkinson and Gross has entered into an employment agreement with AT&T, dated as of January 8, 1998 (as did certain other executive officers of TCG). Each such agreement commences as of the Effective Time of the AT&T Merger. The AT&T Merger is conditioned upon the agreements with each of Messrs. Annunziata, Scarpati and Hansen being in full force and effect and each being employed thereunder as of the Effective Time of the AT&T Merger, subject to their death or disability.

The terms of each of the employment agreements for Messrs. Annunziata, Scarpati, Hansen, Mencher, Atkinson, and Gross are substantially identical. The terms of the employment agreements of Messrs. Annunziata and Scarpati expire on the fourth anniversary of the Effective Time of the AT&T Merger, and the employment agreements of Messrs. Atkinson, Hansen, Mencher and Gross expire on the third anniversary of the Effective Time of the AT&T Merger. Each agreement specifies the annual base salary to be received by the executive, and provides for annual adjustment of the annual base salary by AT&T's compensation committee, provided that the annual increase must be at least 5%. In addition, each executive is entitled to annual bonuses and stock options. The executives will also be granted upon the Effective Time of the AT&T Merger restricted performance shares/units under the AT&T long term incentive plan. Upon the Effective Time of the AT&T Merger, Mr. Annunziata will be granted restricted shares of AT&T common stock or restricted phantom share units, which will vest on the last day of his employment term. Each of Messrs. Annunziata, Scarpati, Hansen, Mencher, Atkinson and Gross are entitled to special supplemental pension benefits which will vest on the last day of the employment term, and the amount therein generally will be payable to the executive following the later of the executive's (i) termination of employment, or (ii) attainment of age 55. Each executive has agreed not to compete with AT&T during the term of his employment and for the two-year period following the termination of his employment.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS OF TCG

The following table provides information, as of March 23, 1998, with respect to the beneficial ownership of TCG Common Stock by (i) each person known by TCG to be the beneficial owner of more than 5% of any class of TCG's voting securities, (ii) each director, TCG's President and Chief Executive Officer and the four most highly compensated other executive officers and (iii) all directors and executive officers as a group. Except as otherwise indicated, the address of each holder is the same as TCG. Each holder has sole voting and investment power with respect to all shares of stock listed as owned by such person.

| <u>Name</u> | <u>Class A Common Stock Owned and Percent of Class</u> | <u>Class B Common Stock Owned and Percent of Class</u> | <u>Percent of Vote of all Classes of Common Stock</u> |
|--|--|--|---|
| Cox(1)(2)..... | — | 39,087,594(34.4%) | 32.7 |
| TCI(3)(2)..... | 1,011,528(1.6%) | 48,779,388(43.0%) | 40.9 |
| Comcast(4)(2)..... | — | 25,622,058(22.6%) | 21.4 |
| The Equitable Companies Incorporated(5) .. | 5,644,983(9.2%) | — | ** |
| FMR Corp.(6)..... | 5,322,130(8.6%) | — | ** |
| Robert Annunziata | 239,907(**) | — | ** |
| John A. Scarpati | 93,264(**) | — | ** |
| Stuart A. Mencher | 66,341(**) | — | ** |
| Joel D. Gross | 86,862(**) | — | ** |
| Alf T. Hansen | 102,013(**) | — | ** |
| James O. Robbins..... | 4,700(**) | — | ** |
| John R. Alchin | — | — | ** |
| John R. Dillon | 3,500(**) | — | ** |
| Gerald W. Gaines | — | — | ** |
| Lawrence S. Smith | — | — | ** |
| Larry E. Romrell | — | — | ** |
| David M. Woodrow | 1,500(**) | — | ** |
| James Bruce Llewellyn | 5,582(**) | — | ** |
| C.B. Rogers, Jr. | 10,582(**) | — | ** |
| Jimmy W. Hayes | 1,100(**) | — | ** |
| Bernard W. Schotters | — | — | ** |
| Executive Officers and Directors, as group(7) | 1,008,088(1.6%) | — | ** |

** Represents less than one percent of the vote of all classes of Common Stock.

- (1) Owned by Cox Teleport Partners, Inc., a wholly owned subsidiary of Cox, a subsidiary of Cox Enterprises, Inc. The business address for Cox Teleport Partners, Inc. is 1400 Lake Hearn Drive, Atlanta, Georgia 30319. The information contained in this table with respect to Cox is based on a joint filing on Schedule 13D reporting ownership as of July 17, 1996, by Cox, TCI, Comcast, Continental and certain control persons of such entities (the "Joint 13D"). The Joint 13D was amended by Cox, TCI and Comcast on January 28, 1998.
- (2) Solely as a result of the agreement of the Cable Stockholders to vote in favor of the others' director nominees under the Amended Stockholders' Agreement, the Cable Stockholders may be deemed to share beneficial ownership of the shares beneficially owned by each of them.
- (3) Owned by TCI Teleport, Inc., a wholly owned subsidiary of TCI. The business address of TCI is 5619 DTC Parkway, Englewood, Colorado 80111-3000. The information contained in this table with respect to TCI is based on the Joint 13D.
- (4) Owned by Comcast Teleport, Inc. and Comcast Communications Properties, Inc., two wholly owned subsidiaries of Comcast. The business address of Comcast is 1500 Market Street, Philadelphia, Pennsylvania 19102-2148. The information contained in this table with respect to Comcast is based on the Joint 13D, as amended separately by Comcast on October 22, 1996, December 23, 1996, May 12, 1997 and October 27, 1997. See footnote (1).
- (5) The business address for The Equitable Companies Incorporated is 1290 Avenue of the Americas, New York, New York 10104. The information contained in this table with respect to The Equitable Companies Incorporated is based on a Schedule 13G/A jointly filed by the Mutuelles AXA, AXA-UAP, The Equitable Companies Incorporated, and their subsidiaries on February 17, 1998.
- (6) The business address for FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109. The information contained in this table with respect to FMR Corp. is based on a Schedule 13G filed on February 14, 1998.
- (7) Includes 709,791 shares of TCG Class A Common Stock subject to stock options exercisable within 60 days. Excludes all shares of TCG Common Stock held by the Cable Stockholders including shares of TCG Common Stock that may be deemed to be indirectly owned by a director of TCG who is also an executive officer or director of one of the Cable Stockholders.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS OF TCG

The TCG Reorganization. Prior to the 1996 Offerings, TCG was owned by subsidiaries of Cox (approximately 30%), TCI (approximately 30%), Comcast (approximately 20%) and Continental (approximately 20%). The business was operated through TCG, and beginning in 1992, TCG Partners, which is a New York general partnership owned prior to the TCG Reorganization by the Cable Stockholders in the same percentages as TCG. TCG Partners was formed to invest, with TCG, the Cable Stockholders and other cable operators, in 14 partnerships (the "Local Market Partnerships") to develop and operate local telecommunications networks. The Local Market Partnerships were owned by TCG, and/or TCG Partners, and certain of the Cable Stockholders which have cable operations in the particular markets addressed by the Local Market Partnerships and, in some cases, other cable operators in such markets. To simplify this complex ownership structure, TCG and the Cable Stockholders agreed to consolidate the ownership of TCG Partners and the Local Market Partnerships as wholly-owned subsidiaries of TCG. As part of this process, certain of the other cable operators agreed to sell their interests in the Local Market Partnerships to TCG directly or through a Cable Stockholder.

In connection with the 1996 Offerings, TCG and the Cable Stockholders entered into a reorganization agreement (the "TCG Reorganization Agreement") pursuant to which TCG, TCG Partners and the Local Market Partnerships were reorganized (the "TCG Reorganization"). The principal transactions comprising the TCG Reorganization, all of which occurred during 1996, were:

- The acquisition by TCG of TCG Partners in exchange for shares of TCG Class B Common Stock issued to the Cable Stockholders.
- The acquisition by TCG of all of the interests in 12 of the 14 Local Market Partnerships in exchange for shares of TCG Class B Common Stock issued to the Cable Stockholders and shares of TCG Class A Common Stock issued to other cable operators (which other cable operators received "piggy-back" registration rights with respect to such shares of TCG Class A Common Stock).
- The acquisition by TCG of the partnership interest of Hyperion Telecommunications, Inc. of Florida in TCG South Florida for \$11.6 million.
- The contribution to TCG of \$269.0 million in aggregate principal amount of indebtedness, plus accrued interest from May 1995, owed by TCG to the Cable Stockholders (except that TCI retained a \$26 million subordinated note of TCG (the "TCI Subordinated Note")) in exchange for shares of TCG Class B Common Stock issued to the Cable Stockholders.
- In connection with Continental's then pending merger with U S WEST, the purchase by TCG of 7,975,738 shares (out of 25,761,330 shares) of TCG Class B Common Stock owned by Continental at a price per share equal to \$16.00 per share of the TCG Class A Common Stock offered in the 1996 Offerings, less the applicable underwriting discount and pro rata portion of the registration fees, representing an aggregate purchase price of \$121 million.

In consideration of the transfer by each of the Cable Stockholders of its respective interest in TCG Partners and the Local Market Partnerships and the contribution to TCG of the indebtedness described above, TCG issued immediately prior to the 1996 Offerings 69,250,230 additional shares of TCG Class B Common Stock to the Cable Stockholders.

On July 2, 1996, TCG issued 576,263 shares of TCG Class A Common Stock to the unaffiliated minority partners in TCG Detroit in consideration for the transfer to TCG of the remaining partnership interests in TCG Detroit.

On December 26, 1996, TCI transferred its interest in TCG Seattle and TCG San Francisco to TCG. In addition, having acquired the 22.9% and 22.2% minority partnership interests in TCG San Francisco and TCG Seattle, respectively, formerly held by Viacom Telecom, Inc., TCI transferred those partnership interests to TCG. (The issuance of shares of TCG Class B Common Stock to TCI pursuant to the TCG Reorganization assumed that, subsequent to the 1996 Offerings, TCI would so contribute its then current partnership interests in TCG

Seattle and TCG San Francisco, and that TCI would so acquire and contribute to TCG the partnership interests of Viacom Telecom, Inc. in TCG Seattle and TCG San Francisco.) In addition, on December 26, 1996, TCI was issued (i) 638,862 shares of TCG Class A Common Stock in consideration for the transfer on such date to TCG of the partnership interest which TCI had acquired from MicroNet, Inc. in TCG San Francisco and (ii) 372,666 shares of TCG Class A Common Stock in consideration for the transfer on such date to TCG of the partnership interest which TCI had acquired from InterMedia Partners in TCG San Francisco. As a result, as of December 26, 1996, all of the Local Market Partnerships had become wholly owned subsidiaries of TCG.

1997 Equity Offering. On November 13, 1997, TCG consummated the 1997 Equity Offering. Of the 17,250,000 shares of TCG Class A Common Stock offered, 7,304,408 shares were offered by TCG and 9,945,592 shares were offered by a subsidiary of Continental. Continental acquired its interest in TCG in May 1993. As a result of the consummation of the 1997 Equity Offering, Continental does not hold any shares of TCG Common Stock.

Amended Stockholders' Agreement. In connection with the TCG Reorganization, TCG and the Cable Stockholders entered into the Amended Stockholders' Agreement. The following summary description of the Amended Stockholders' Agreement does not purport to be complete and is qualified in its entirety by reference to the text of the Amended Stockholders' Agreement, which is filed as an exhibit to TCG's Registration Statement on Form S-1 (Registration Nos. 333-3850 and 333-3984, as amended). Furthermore, there can be no assurance that the Cable Stockholders will not cause the Amended Stockholders' Agreement to be amended, modified or terminated or cause TCG to waive any provision of the Amended Stockholders' Agreement.

The Amended Stockholders' Agreement provides that at each annual meeting of TCG's stockholders at which directors are elected, the holders of the TCG Class B Common Stock will vote their shares in favor of nominees for director to be designated as follows: (i) the holders of TCG Class B Common Stock will designate ten nominees (with the right of a holder of TCG Class B Common Stock to designate one or more nominees depending on the percentage of the TCG Class B Common Stock held by it), (ii) the Board of Directors of TCG will designate by unanimous consent the Chief Executive Officer of TCG as a nominee and (iii) the Board of Directors with the unanimous approval of the holders of TCG Class B Common Stock that have the right to designate nominees for director shall designate two individuals as nominees for director who are neither employed by nor affiliated with TCG or any holder of TCG Class B Common Stock. Under the Amended Stockholders' Agreement, a holder of TCG Class B Common Stock generally is entitled to designate one director nominee for each 9% of the outstanding shares of TCG Class B Common Stock held by it and its affiliates. Under TCG's Amended and Restated Certificate of Incorporation or the Amended Stockholders' Agreement, the holders of the TCG Class A Common Stock will not have the right, as a class, to nominate any individuals for election to the Board of Directors. The Amended Stockholders' Agreement prohibits any transfer of TCG Class B Common Stock held by the parties thereto, unless expressly permitted under the terms thereof. Parties to the Amended Stockholders' Agreement have certain rights of first offer and rights of first refusal thereunder with respect to proposed sales of the TCG Class B Common Stock.

Each holder of TCG Class B Common Stock has the right to sell all or a part of its TCG Class B Common Stock upon receiving a bona fide offer from an unaffiliated third party, subject to giving notice to the other holders of TCG Class B Common Stock who have designated at least one director, which notice shall contain an offer to sell such stock to such other holders of TCG Class B Common Stock on the terms and conditions set forth in the offer from the third party. Subject to certain limitations, the non-selling holders of TCG Class B Common Stock have the right to purchase pro rata all, but not less than all, of the TCG Class B Common Stock offered. If the non-selling holders of TCG Class B Common Stock do not purchase all of the TCG Class B Common Stock offered, the offering holder of TCG Class B Common Stock may sell the TCG Class B Common Stock to the third party on the terms contained in the offer made to the other holders of TCG Class B Common Stock. However, unless the amount of TCG Class B Common Stock is sufficient to entitle the transferee to designate a nominee for director under the Amended Stockholders' Agreement (i.e., the total percentage of TCG Class B Common Stock that would be held by the transferee and certain of its affiliates is at least nine percent)

and the transferee agrees to become a party to the Amended Stockholders' Agreement, any TCG Class B Common Stock included in the stock being sold must be converted to TCG Class A Common Stock.

If any party desires to convert TCG Class B Common Stock to TCG Class A Common Stock, it must first offer that stock at a market price to the other holders of TCG Class B Common Stock who have the right to designate at least one director. If such other holders do not elect to buy such stock, then such stock can be converted to TCG Class A Common Stock and sold by the selling stockholder free of restrictions under the Amended Stockholders' Agreement.

The parties to the Amended Stockholders' Agreement have demand registration rights on the following terms: (i) such parties collectively will have the right to make one demand per year (with any such party having the right to make such demand), (ii) the amount which can be sold pursuant to any demand may be limited if the managing underwriter selected by TCG with the approval of the party to the Amended Stockholders' Agreement that has included the largest number of shares in the registration advises TCG that marketing factors require a limitation of the number of shares to be underwritten and (iii) if the amount determined pursuant to clause (ii) is less than the aggregate amount which such parties want to sell in such offering, each such party will have the right to sell its pro rata portion of the maximum amount. The parties to the Amended Stockholders' Agreement participating in the registration must reimburse TCG for its out-of-pocket expenses incurred in connection with any such demand registration.

The Amended Stockholders' Agreement will terminate when the aggregate voting power of the TCG Class B Common Stock represents less than 30% of the aggregate voting power of all outstanding TCG Common Stock.

Eastern TeleLogic Corporation and Comcast. Effective March 1, 1997, TCG completed its previously announced acquisition of ETC for 2,757,083 shares of TCG Class A Common Stock. ETC is the leading competitive local exchange carrier in Philadelphia, Pennsylvania and in the neighboring cities of Camden, New Jersey and Wilmington, Delaware. In the first of two steps, on October 25, 1996, ETC redeemed shares of its stock and employee stock options (approximately 47%) not held by Comcast CAP, a corporation owned 51% by Comcast Corporation and 49% by TCG. Comcast CAP borrowed at a market interest rate approximately \$115 million from TCG as a short-term loan and, in turn, loaned this amount to ETC to effect the redemption. In the second step, TCG acquired Comcast's 51% stock interest in Comcast CAP in exchange for 2,757,083 shares of TCG Class A Common Stock, resulting in ETC becoming a wholly-owned subsidiary of TCG. In May 1997, Comcast transferred the 2,757,083 shares of TCG Class A Common Stock to a third party in a private transaction. TCG also assumed an aggregate of approximately \$52.6 million of ETC debt and other obligations. The acquisition of ETC provides TCG with access to the Philadelphia market, the nation's fifth largest market, and allows TCG to establish a contiguous network between Boston and Washington, D.C. ETC operates a Class 5 digital telephone switch on its 525-mile fiber optic network which connects to more than 360 buildings. As part of the acquisition, TCG assumed the ETC Facility. This facility, which ETC entered into in October 1995, is a \$60 million credit facility with certain banks. Initial borrowings under the ETC Facility of \$37 million were principally used to repay existing long-term debt, leases and certain subordinated convertible demand promissory notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of TCG—Liquidity and Capital Resources."

At Home Corporation. In April 1997, TCG entered into a Master Communications Services Agreement with At Home, which is owned in part by certain of the owners of the Cable Stockholders. The Agreement provides for both promotional and standard pricing over a five year term and provides At Home with the option to colocate certain of its equipment in TCG premises in which event At Home incurs certain obligations to use TCG's services. TCG believes that the Internet services being or to be offered by At Home may compete with services being or to be offered by TCG through its CERFnet subsidiary. The amount receivable from At Home at December 31, 1997 was \$0.2 million.

Kansas City Fiber Network, L.P. In December 1997, TCG agreed to purchase substantially all of the assets used in connection with a fiber optic communications system of KCFN, a majority of the equity of which is

owned by TCI. Pending the closing of such transaction, TCG is providing certain services in connection with the operations of such communications system, which is located in the Kansas City Missouri/Overland Park, Kansas metropolitan area. The purchase price is approximately \$55 million and TCG will be required to assume certain obligations of the seller. Effective as of June 1, 1997, TCG entered into a Technical Services Agreement with KCFN whereby TCG agreed to provide certain management services to KCFN.

Operator Managed Ventures Services Agreements with Cox. Pursuant to the terms of three Operator Managed Ventures Services Agreements between TCG and certain affiliates of Cox, TCG has options to acquire up to a 35% interest in the competitive access businesses conducted by such affiliates of Cox in New Orleans, Oklahoma City and the Hampton Roads, Virginia area, respectively. To the extent the Cox competitive access provider has derived revenue from any contract entered into by TCG as a result of sales efforts engaged in by TCG on behalf of such Cox operations, the purchase price shall be the ratio of the annual TCG generated revenue to total annual revenue of the Cox operation multiplied by the book value of the assets of the Cox operation. If such ratio is less than 35%, TCG may purchase the balance, up to 35%, of that Cox operation for the fair market value (as determined in accordance with the Operator Managed Ventures Services Agreements) of the operation. There is no cap or maximum purchase price under the terms of the Operator Managed Ventures Services Agreements. In November 1996 TCG notified Cox of its intention to exercise its option to purchase a 35% interest in Cox's Hampton Roads, Virginia operations (TCG's options to acquire 35% interests in Cox's New Orleans and Oklahoma City operations do not mature until 1999). Cox and TCG engaged in discussions concerning the calculation of the purchase price formula for Hampton Roads, Virginia, and a possible renegotiation and restructuring of the respective rights and obligations of the parties under each of the Operator Managed Ventures Services Agreements. However, in connection with the AT&T Merger, Cox and TCG agreed to suspend their negotiations and to toll the option period until the later of six months after the Effective Time of the AT&T Merger and the contractual trigger date.

TCG also provides management services to certain affiliates of Cox under these agreements, including billing services, network monitoring and accounts receivable functions. Under the terms of the agreements, TCG retains 8% of the collected revenues from Cox customers as a royalty fee. Royalty fees recorded from Cox were approximately \$0.6 million, \$0.3 million and \$0.1 million for the years ended 1997, 1996 and 1995, respectively, and are included in management and royalty fees from affiliates in the statements of operations. The amount due to Cox under these agreements was \$1.7 million and \$1.1 million as of December 31, 1997 and 1996, respectively. Included in accounts receivable-trade are approximately \$1.0 million and \$0.4 million at December 31, 1997 and 1996, respectively, for amounts owed by Cox customers. In the event of a purchase of an interest in any of the Cox operations by TCG, the royalty fee for such operation is reduced to 3%.

Fidelity. In 1987, a subsidiary of TCG and a subsidiary of FMR Corp. created a joint venture, Teleport Communications Boston. Pursuant to a series of transactions consummated in October 1994, TCG acquired from a subsidiary of FMR Corp. the 50% partnership interest in Teleport Communications Boston that it did not own. As part of the transaction, TCG reimbursed the FMR Corp. subsidiary for approximately \$7 million of capital contributions paid by that subsidiary to Teleport Communications Boston. The purchase price for the partnership interest was \$30.5 million which was paid by TCG's purchase of stock of Continental valued at \$30.5 million, and the delivery of that stock to the FMR Corp. subsidiary. The purchase price for the purchase of the Continental stock was paid by TCG's delivery to Continental of a promissory note in the amount of \$30.5 million, bearing interest at the rate of 7 $\frac{1}{2}$ % per annum. The entire principal amount of the promissory note, plus accrued interest in the amount of \$105,320, was paid in November 1994. The promissory note was canceled upon such payment, and no amounts of principal or interest remain outstanding thereunder. As a result of those transactions, Teleport Communications Boston became a wholly owned subsidiary of TCG.

Residential Telephony Agreements. In 1996, TCG entered into a preliminary, short-term agreement with TCI which provided for the provision of certain services by TCG to TCI in connection with the development by TCI of residential telephony service offerings in Hartford, Connecticut, Fremont, California and Arlington Heights, Illinois. TCI has agreed to reimburse TCG for certain costs and cost of capital in connection with these

services. TCI and TCG are also in the process of negotiating market-based agreements regarding the provision of residential telephony services in certain multiple dwelling units at various locations. TCG has entered into agreements with Comcast to support Comcast residential service offerings in various locations. At December 31, 1997 and 1996, the amounts due to TCG for reimbursement by Cable Stockholders in respect of residential services were \$1.0 million and \$1.1 million, respectively, and are included in related parties within the accounts receivable.

Sales of Fiber Optic Cable. In 1994, TCG entered into agreements with providers of fiber optic cable that contained discounts for certain volumes of purchases. The agreements permitted TCG to purchase cable on behalf of affiliates, including minority partners in the Local Market Partnerships, and to apply those purchases toward the volume discounts. In 1996 and 1997, TCG purchased cable on behalf of certain of the Cable Stockholders which it then sold to them at cost. At December 31, 1997 and 1996, the amounts receivable from the Cable Stockholders were approximately \$1.1 million and \$1.5 million, respectively. TCG has purchased cable on behalf of unaffiliated parties as well.

CLEC Assets. In connection with the formation of the Local Market Partnerships in Chicago, Dallas, Pittsburgh and Seattle, TCI contributed to the capital of such Local Market Partnerships certain businesses it owned which provided local telecommunications services in the service area of such Local Market Partnerships, in exchange for partnership interests in such Local Market Partnerships. None of such businesses had a value in excess of \$20.0 million, and each was valued based on the cost thereof. The agreed value of the assets TCI contributed to TCG Chicago was approximately \$4 million, for which it received a 7.4% partnership interest (in addition to the 26.6% interest it received for cash). The agreed value of the assets TCI contributed to TCG Dallas was approximately \$3.3 million, for which it received a 14.3% partnership interest (in addition to the 40.8% interest it received for cash). The agreed value of the assets TCI contributed to TCG Pittsburgh was approximately \$19 million, for which it received a 60% partnership interest. The agreed value of the assets TCI contributed to TCG Seattle was approximately \$3.3 million, for which it received a 10.8% partnership interest (in addition to the 32.0% interest it received for cash).

Facilities Arrangements. Affiliates of the Cable Stockholders have entered into two types of arrangements with TCG pursuant to which fiber optic and cable transmission facilities are made available to it. Pursuant to the terms of one type of such arrangements, providing an indefeasible right of use, the compensation payable by TCG is based on the affiliate's cost of construction of such facilities, generally payable over five years. For the year ended December 31, 1997, payments, representing principal plus interest, made to TCI, Cox and Comcast pursuant to facilities lease arrangements with TCG were approximately \$16.0 million, \$17.2 million, and \$7.0 million, respectively. Under the terms of the other type of such arrangements, TCG agrees to provide, install and maintain all customer premise and nodal electronics equipment and provide 24-hour electronics maintenance and monitoring with respect to the cable transmission service. The compensation payable by TCG is based on a percentage of the total monthly recurring amount which TCG bills to its customers which are served through such affiliate's cable transmission service. Affiliates of the Cable Stockholders have also entered into various colocation arrangements with TCG.

Pursuant to the Voting Agreement executed in connection with the AT&T Merger Agreement, each of the Cable Stockholders, on behalf of itself and certain of its affiliates, also agreed that (i) certain rights-of-way, colocation and similar agreements with TCG and its affiliates would be amended as of January 8, 1998, to provide that each such agreement would remain in effect for the longer of five years from such date and the current term of such agreement; and (ii) certain existing facilities agreements, facilities lease agreements or other arrangements (including arrangements relating to future agreements) relating to the lease or other grant of right to use fiber optic facilities between such Cable Stockholder or any of its affiliates and TCG or any of its subsidiaries would be automatically amended as of January 8, 1998, to conform with a form of Master Facilities Agreement agreed to by AT&T, the Cable Stockholders and TCG at the time of the execution of the AT&T Merger Agreement. Among other things, agreements amended and entered into in accordance with the Master Facilities Agreement will, subject to the terms, conditions and limitations of the Master Facilities Agreement,

(i) grant TCG an indefeasible right to use the facilities that are the subject of the existing facilities agreements. and (ii) grant TCG an indefeasible right to use additional fiber optic facilities which, subject to certain conditions. TCG may require the Cable Stockholder or its affiliates to construct. The Master Facilities Agreement continues to contain a provision prohibiting TCG from using the fiber optic facilities to provide cable television signals to subscribers. In the event of disruption or trouble with the facilities, the Cable Stockholder or its affiliates must use best efforts to begin restoration and repair within 30 minutes of notification from TCG or such other required period under current maintenance specifications. Each of the Cable Stockholders also agreed to, or to cause its appropriate affiliate to, subject to certain limitations, execute an agreement in the form of the Master Facilities Agreement in any new service territory in which such Cable Stockholder (or affiliate) provides services or owns or operates facilities or in any existing service territory of such Cable Stockholder (or affiliate) for which a facilities agreement was not in place as of January 8, 1998. These amendments became effective immediately and are not subject to completion of the AT&T Merger.

Sprint PCS Service Arrangements. Sprint PCS, a partnership owned 60% by TCI, Comcast and Cox, has entered into service arrangements, preliminary agreements or letters of intent with a number of wholly-owned subsidiaries of TCG providing for the construction of special facilities and the provision of services to Sprint PCS by TCG. TCG and Sprint PCS continued this service relationship throughout 1997. The amounts receivable from Sprint PCS at December 31, 1997 and 1996, were \$1.6 million and \$0.3 million, respectively.

Comcast Service Arrangements. TCG has agreed to provide Comcast certain services on customary terms in the Philadelphia area, and Comcast has agreed to utilize exclusively TCG's wireline telecommunications services in the Philadelphia area, subject to certain qualifications.

TCI Subordinated Note. As part of the TCG Reorganization, TCG issued to TCI a subordinated note in the principal amount of \$26 million, which bore interest at the rate of 7.5% per annum with principal and interest payable in one installment on June 26, 2001. This note was repaid at a discount in December 1997.

TCG believes that the terms, taken as a whole, of the transactions under the headings "1997 Equity Offering," "Eastern TeleLogic Corporation and Comcast," "At Home Corporation," "Kansas City Fiber Network, L.P.," "Operator Managed Ventures Services Agreements with Cox," "Fidelity," "Residential Telephony Agreements," "Sales of Fiber Optic Cable," "CLEC Assets", "Facilities Arrangements", "Sprint PCS Service Arrangements", "Comcast Service Arrangements" and "TCI Subordinated Note" were no less favorable to TCG than could have been obtained from unaffiliated parties.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the year ended December 31, 1997, John R. Dillon, Gerald W. Gaines, James Bruce Llewellyn and Lawrence S. Smith participated in deliberations of TCG's Board of Directors concerning Executive Officer compensation.

DESCRIPTION OF THE CAPITAL STOCK OF TCG

TCG's Amended and Restated Certificate of Incorporation provides for an authorized capital stock of 900 million shares, including 450 million shares of Class A Common Stock, \$.01 par value per share, 300 million shares of Class B Common Stock, \$.01 par value per share, and 150 million shares of preferred stock, \$.01 par value per share (the "Preferred Stock"). No preferred stock is outstanding, and the Cable Stockholders own, directly or indirectly, all of the outstanding shares of TCG Class B Common Stock.

The following summary description relating to the capital stock of TCG does not purport to be complete. The rights of the holders of TCG's capital stock are set forth in TCG's Amended and Restated Certificate of Incorporation, as well as the Amended Stockholders' Agreement, copies of which are available from TCG upon request. The summary set forth below is qualified by reference to such documents and to the applicable provisions of the DGCL.

Common Stock

The preferences and relative rights of the TCG Class A Common Stock and TCG Class B Common Stock are substantially identical in all respects, except for voting rights and conversion rights.

Voting Rights. Each share of TCG Class A Common Stock entitles the holder to one vote and each share of TCG Class B Common Stock entitles the holder to 10 votes on each matter to be voted upon by the holders of the TCG Common Stock. The holders of the shares of TCG Class A Common Stock and TCG Class B Common Stock vote as one class on all matters to be voted on by stockholders, including, without limitation, the election of directors and any proposed amendment to the Amended and Restated Certificate of Incorporation of TCG that would increase the authorized number of shares of TCG Common Stock or any class thereof or any other class or series of stock or decrease the number of authorized shares of any class or series of stock (but not below the number thereof then outstanding), except as required by the DGCL and except that, for a period of five years from June 26, 1996, so long as the holders of TCG Class B Common Stock represent at least 50% of the voting power of the outstanding TCG Common Stock, the approval of the holders of a majority of the TCG Class B Common Stock is required for TCG to provide (i) wireless communications services that use radio spectrum for cellular, personal communications service (PCS), enhanced specialized mobile radio (ESMR), paging, mobile telecommunications and any other voice or data wireless services whether fixed or mobile; provided, however, that TCG may provide and brand telecommunications products and services delivered via point-to-point microwave transmissions; and (ii) telecommunications services to residences; provided, however, that TCG may provide telecommunications services to residences to the extent required by a regulatory authority having jurisdiction over TCG's business, including requirements of TCG's local exchange carrier certificates and common carrier obligations, if any, or in any geographic area in which such services are offered as of July 1, 1996, but only to the extent of the services then so offered.

Neither the holders of TCG Class A Common Stock nor the holders of TCG Class B Common Stock have cumulative voting rights. For a discussion of the effects of the disproportionate voting rights of the TCG Class A Common Stock and TCG Class B Common Stock, see "Risk Factors—Control by Principal Stockholders; Conflicts of Interest; Possible Competition by the Cable Stockholders."

Dividends. Each share of TCG Common Stock is entitled to receive dividends from funds legally available therefor if, as and when declared by the Board of Directors of TCG. TCG Class A Common Stock and TCG Class B Common Stock share equally, on a share-for-share basis, in any dividends declared by the Board of Directors. If at any time a distribution of the TCG Class A Common Stock or TCG Class B Common Stock is to be paid in shares of TCG Class A Common Stock, TCG Class B Common Stock or any other securities of TCG or any other person, such dividends may be declared and paid only as follows: (1) a share distribution consisting of TCG Class A Common Stock to holders of TCG Class A Common Stock and TCG Class B Common Stock, on an equal per share basis; or to holders of TCG Class A Common Stock only, but in such event there shall also be a simultaneous share distribution to holders of TCG Class B Common Stock consisting of shares of TCG

Class B Common Stock on an equal per share basis; (2) a share distribution consisting of TCG Class B Common Stock to holders of TCG Class B Common Stock and TCG Class A Common Stock, on an equal per share basis; or to holders of TCG Class B Common Stock only, but in such event there shall also be a simultaneous share distribution to holders of TCG Class A Common Stock consisting of shares of TCG Class A Common Stock on an equal per share basis; and (3) a share distribution of shares of any class of securities of TCG or any other person other than the TCG Common Stock, either on the basis of a distribution of identical securities, on an equal per share basis to the holders of TCG Class A Common Stock and TCG Class B Common Stock, or on the basis of a distribution of one class of securities to the holders of TCG Class A Common Stock and another class of securities to holders of TCG Class B Common Stock, provided that the securities so distributed do not differ in any respect other than relative voting rights and related differences in designations, conversion and share distribution provisions, with the holders of TCG Class B Common Stock receiving the class having the higher relative voting rights, provided that if the securities so distributed constitute capital stock of a subsidiary of TCG, such rights shall not differ to a greater extent than the corresponding differences in voting rights, designations, conversion and distribution provisions between TCG Class A Common Stock and TCG Class B Common Stock. If TCG shall in any manner subdivide or combine the outstanding shares of TCG Class A Common Stock or TCG Class B Common Stock, the outstanding shares of the other class of TCG Common Stock shall be proportionally subdivided or combined in the same manner and on the same basis as the outstanding shares of TCG Class A Common Stock or TCG Class B Common Stock, as the case may be, that have been subdivided or combined.

Conversion. Under the Amended and Restated Certificate of Incorporation, each share of TCG Class B Common Stock is convertible at any time and from time to time at the option of the holder thereof into one share of TCG Class A Common Stock. The TCG Class A Common Stock has no conversion rights.

Other. Stockholders of TCG have no preemptive or other rights to subscribe for additional shares. All holders of TCG Common Stock, regardless of class, are entitled to share equally on a share-for-share basis in any assets available for distribution to stockholders on liquidation, dissolution or winding up of TCG. No shares of the TCG Common Stock are subject to redemption or a sinking fund. All outstanding shares are validly issued, fully paid and nonassessable. TCG may not subdivide or combine shares of TCG Common Stock without at the same time proportionally subdividing or combining shares of the other classes.

Preferred Stock

TCG's Board of Directors is authorized to provide for the issuance of Preferred Stock in one or more series and to fix the designations, preferences, powers and relative, participating, optional and other rights, qualifications, limitations and restrictions thereof, including the dividend rate, conversion rights, voting rights, redemption price and liquidation preference and to fix the number of shares to be included in any such series. Any Preferred Stock so issued may rank senior to the TCG Common Stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up, or both. In addition, any such shares of Preferred Stock may have class or series voting rights.

Section 203 of the Delaware General Corporation Law

Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which such stockholder became an interested stockholder, unless (i) prior to such date, the board of directors of the corporation approved such business combination or the transaction which resulted in such stockholder becoming an interested stockholder, (ii) upon consummation of the transaction which resulted in such stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the outstanding voting stock of the corporation or (iii) on or after such date the business combination is approved by the board of directors of the corporation and approved at a meeting (and not by written consent) by the affirmative vote of at least 66 $\frac{2}{3}$ % of the outstanding voting stock which is not owned by the interested stockholder. The term "business combination" is broadly defined to include mergers, asset sales, other transfers, loans, guaranties and

other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of the corporation's voting stock. Each of Cox Teleport Partners, Inc., TCI Teleport, Inc., Comcast Teleport, Inc., Comcast Communications Properties, Inc. and Continental Holding Company (for periods prior to November 13, 1997), has been an "interested stockholder" of TCG for a period in excess of three years. Corporations, pursuant to a provision in their certificate of incorporation, may choose not to be governed by Section 203 of the DGCL. The Amended and Restated Certificate of Incorporation of TCG does not contain such a provision; thus, TCG is governed by Section 203 of the DGCL.

Transfer Agent and Registrar

The Transfer Agent and Registrar for the TCG Class A Common Stock is The Bank of New York.

DESCRIPTION OF CERTAIN INDEBTEDNESS OF TCG

Revolving Credit Agreement

On July 28, 1997, TCG New York, Inc., a wholly owned subsidiary of TCG, entered into an Amended and Restated Loan Agreement (the "Revolving Credit Agreement") with Toronto Dominion (Texas), Inc., as administrative agent, The Chase Manhattan Bank, as documentation agent, and the Banks (as defined in the Revolving Credit Agreement) to finance capital expenditures and working capital needs of TCG and its subsidiaries. TCG is not liable for the obligations of TCGNY under the Revolving Credit Agreement; provided, however, that TCG is obligated to repay to TCGNY an amount equal to the portion of the proceeds of the loans under the Revolving Credit Agreement which are provided to TCG or its other subsidiaries, and notes evidencing such obligation must be collaterally assigned to the Banks as security for the obligations of TCGNY under the Revolving Credit Agreement.

The initial maximum amount available to TCGNY under the Revolving Credit Agreement is \$400 million; however, the available amount will be reduced according to a prearranged progressive schedule until maturity at March 31, 2006. As of December 31, 1997, no amount was outstanding under the Revolving Credit Agreement and TCGNY had \$344.4 million in available capacity under the Revolving Credit Agreement.

At the option of TCGNY, advances bear interest at a rate based on (i) the Base Rate, which is the higher of (a) the Prime Rate of The Toronto-Dominion Bank or (b) the Federal Funds Rate plus 0.5% or (ii) LIBOR. Interest on Base Rate advances is payable every calendar quarter. Interest on LIBOR advances is payable at least every three months, or more frequently, at the option of TCGNY. In addition, TCGNY must pay a commitment fee equal to 0.375% per annum on the unused commitment amount. Any advances will be guaranteed by the subsidiaries of TCGNY and secured by all the indebtedness of the subsidiaries of TCGNY to TCGNY, the capital stock of the subsidiaries of TCGNY and the partnership interests of two of the subsidiaries of TCGNY in Teleport Communications New York, itself a subsidiary of TCGNY, and by the collateral assignment of any notes evidencing loans made by TCGNY to TCG or other subsidiaries of TCG.

The Revolving Credit Agreement contains a number of covenants that restrict TCGNY and its subsidiaries from, among other things and except as specifically provided in the Revolving Credit Agreement, incurring other indebtedness, creating liens on their assets, liquidating, entering into merger or consolidation transactions, disposing of assets outside the ordinary course of business, providing guarantees, making certain investments and acquisitions, entering into transactions with affiliates other than on an arms' length basis, having unfunded ERISA Affiliates (as defined in the Revolving Credit Agreement) and allowing the subsidiaries of TCGNY to enter into transactions limiting their ability to pay dividends to TCGNY. The Revolving Credit Agreement provides that TCGNY is not permitted to pay dividends to TCG at any time prior to July 1, 1999, and may pay dividends to TCG thereafter only if (a) no default under the Revolving Credit Agreement exists, (b) the ratio of the debt of TCGNY to the product of two times its operating cash flow for the prior two quarters is less than 5.0 to 1.0 and (c) such dividend is not paid from the proceeds of any sale of assets. Amounts borrowed by TCGNY under the Revolving Credit Agreement may be lent to TCG for general corporate purposes, so long as such indebtedness is evidenced by promissory notes executed by TCG in favor of TCGNY, and such promissory notes are pledged to the lenders under the Revolving Credit Agreement. Finally, TCGNY and its subsidiaries are required to maintain certain levels of cash flow.

The Revolving Credit Agreement also contains customary events of default, including, but not limited to, cross-default to other indebtedness of TCGNY or its subsidiaries, cross-acceleration to certain material indebtedness of TCG, certain decisions by the FCC, the loss of a Material License (as defined in the Revolving Credit Agreement) and a Change of Control of TCGNY (which is defined as a change in the ownership of the stock of TCGNY that results in less than 50.1% of all voting rights relating to TCGNY's capital stock being owned, directly or indirectly, by one or more of the Cable Stockholders, any of the Cable Stockholders and Sprint Corporation or any person owned by Sprint Corporation and any of the Cable Stockholders). Unless the banks that are a party to the Revolving Credit Agreement consent to the AT&T Merger, the consummation of such

merger will constitute a default under the Revolving Credit Agreement. The occurrence of a payment default under, or the acceleration of, any indebtedness for borrowed money of TCG in excess of \$50 million would be an event of default under the Revolving Credit Agreement. The occurrence of an event of default would allow Toronto Dominion (Texas), Inc., The Chase Manhattan Bank and the Banks to accelerate the maturity of the outstanding advances, call the guarantee of the subsidiaries of TCGNY and foreclose on the collateral.

ETC Facility

ETC, a wholly owned subsidiary of TCG, entered into a credit facility ("the ETC Facility") in October 1995 with CoreStates Bank, N.A. and certain other lenders. The ETC Facility is a \$60 million credit facility. Initial borrowings under the ETC Facility of \$37 million were principally used to repay existing long-term debt, leases and certain subordinated convertible demand promissory notes. The ETC Facility provides for interest based upon either the base rate, or LIBOR, adjusted as defined in the ETC Facility (7.4375% at December 31, 1997), which is payable quarterly. The balance outstanding is due on September 30, 1998. Borrowings under the ETC Facility are collateralized by substantially all of ETC's assets and outstanding common stock. In addition, the ETC Facility contains certain restrictive covenants which, among other things, require ETC to maintain certain debt service coverage ratios and limit the payment of dividends and capital expenditures. In addition, ETC is required to pay $\frac{3}{8}\%$ per year on the available portion of the ETC Facility. The total outstanding balance at December 31, 1997, was \$52.6 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operation of TCG—Liquidity and Capital Resources."

Notes Issued Pursuant to 1996 Offerings

In July 1996 TCG sold \$300 million aggregate principal amount of the 1996 Senior Notes and \$1,073 million aggregate principal amount at maturity of the 1996 Senior Discount Notes. The 1996 Senior Notes were issued pursuant to an Indenture (the "1996 Senior Notes Indenture") between TCG and United States Trust TCG of New York, as trustee, and the 1996 Senior Discount Notes were issued pursuant to an Indenture (the "1996 Senior Discount Notes Indenture" and, together with the 1996 Senior Notes Indenture, the "1996 Indentures") between TCG and United States Trust Company of New York, as trustee. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of TCG—Overview."

The 1996 Notes are unsecured obligations of TCG, ranking *pari passu* in right of payment with all senior unsecured indebtedness of TCG. The 1996 Senior Notes bear interest at the rate of $9\frac{1}{8}\%$ per annum payable in cash semiannually on January 1 and July 1 in each year until the principal thereof is paid or duly provided for. The 1996 Senior Discount Notes were issued at a discount to their aggregate principal amount to generate gross proceeds of approximately \$625 million. The 1996 Senior Discount Notes accrete at a rate of $11\frac{1}{8}\%$, compounded semiannually, to an aggregate principal amount of \$1,073 million by July 1, 2001. Thereafter, interest on the 1996 Senior Discount Notes will accrue at the rate of $11\frac{1}{8}\%$ per annum and will be payable semiannually on January 1 and July 1, commencing on January 1, 2002; provided that at any time prior to July 1, 2001, TCG may elect to commence the accrual of cash interest on the 1996 Senior Discount Notes, in which case the outstanding principal amount of such 1996 Notes will be reduced to their accreted value as of the date of such election and cash interest shall become payable thereafter. The 1996 Notes are subject to redemption at the option of TCG, in whole or in part, at any time on or after July 1, 2001, initially at 104.938% of their principal amount in the case of the 1996 Senior Notes, and 105.563% in the case of the 1996 Senior Discount Notes and declining to 100% of their principal amount on or after July 1, 2004 in the case of all of the 1996 Notes, in all cases plus accrued and unpaid interest thereon to the applicable redemption date. In addition, in the event of the first to occur prior to July 1, 1999 of a public equity offering with proceeds of \$150 million or more or a sale or series of related sales by TCG of its capital stock to certain Strategic Equity Investors (as defined in the 1996 Indentures) for an aggregate purchase price of \$150 million or more, TCG may, at its option, within 60 days thereof, use net proceeds of such equity offering to redeem up to one-third of the aggregate principal amount of the 1996 Notes originally issued at a redemption price of 110% of the accreted value as of the redemption date of the 1996 Notes so redeemed; provided that at least one-half of the aggregate principal amount of the 1996 Notes originally issued remains outstanding after such redemption. Upon the occurrence of a Change of

Control (as defined in the 1996 Indentures), each holder of 1996 Notes will have the right to require TCG to purchase all or any part of such holder's 1996 Notes at a purchase price equal to, in the case of the 1996 Senior Discount Notes, 101% of the accreted value thereof in the event of a Change of Control occurring prior to July 1, 2001, plus any accrued and unpaid interest not otherwise included in the accreted value or, in the case of the 1996 Senior Notes and, in the event of a Change of Control occurring on or after July 1, 2001, the 1996 Senior Discount Notes, 101% of the principal amount thereof plus accrued and unpaid interest. The consummation of the AT&T Merger will constitute a Change of Control under the 1996 Indentures.

The 1996 Indentures contain certain restrictive covenants which impose limitations on TCG's and certain of its subsidiaries' ability to, among other things: (i) incur additional indebtedness, (ii) pay dividends or make certain other distributions and investments, (iii) create liens, (iv) create dividend and other payment restrictions on subsidiaries, (v) incur certain guarantees, (vi) enter into certain asset sale transactions, (vii) enter into certain transactions with affiliates (including the Cable Stockholders) and (viii) merge, consolidate or transfer substantially all of TCG's assets.